NEW TRADE OPPORTUNITIES FOR AFRICA

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ABSTRACT

This paper explores the new products, markets, and modes of trade of which African businesses must be aware to successfully compete in the global marketplace. The authors also address market analysis techniques as well as the literature on competitiveness. Specifically, the paper considers trade and investment promotion experiences, including export promotion zones; duty and indirect tax exemption, drawback and rebate schemes; foreign direct investment promotion; export and investment promotion support services; and entrepreneurship or private sector development projects, all of which governments frequently use as second-best measures to bolster trade and investment in the absence of complete and effective macroeconomic and sectoral policy liberalization. Last, the paper explores the expected effects of international trade agreements on Sub-Saharan Africa's (SSA) new trade opportunities, concluding that SSA participation in the Uruguay Round (UR) of international trade negotiations produced mixed results.

Growing consensus suggests that the impact of the Uruguay Round on SSA will be modest, and that further liberalization of domestic economic environments is essential to maximize gains from the UR negotiations. Given that SSA agricultural exports already face relatively few tariff barriers, most new product opportunities will be in manufacturing. It is expected that reductions in preferential access to traditional markets will encourage SSA producers to seek out alternative export markets within the industrialized and developing worlds. Finally, new agreements with respect to trade-related investment measures (TRIMs) and the trade-related aspects of intellectual property rights (TRIPs) will affect how SSA does business in the future.

The survey concludes that SSA will have to undergo extensive changes in its economic and business thinking if it is to take advantage of new trade opportunities. Researchers therefore must focus on upstream issues, such as reskilling of workers, as well as downstream issues, such as the effect on growth, employment, incomes and their distribution, consumption, nutrition, the environment, worker health and safety, etc. Expanded recourse by SSA to new trade opportunities; the impact of the UR on trade, investment, and growth; new non-tariff forms of protection which may thwart opportunities for Africa; and developing an African entrepreneurial sector in SSA countries capable of competing internationally should also be studied.

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WHAT ARE NEW TRADE OPPORTUNITIES?

African economic progress over the last 20 years has been bleak. Severe policy distortions at both the macroeconomic and sectoral levels have led to economic stagnation. Industrial import substitution strategies failed to contribute to growth in the manufacturing sector while extensive intervention in agricultural price and trade regimes led in many countries to a withdrawal from the food sector into the production of nontradables. Exports suffered from a comparative advantage in the traditional sectors (land-intensive commodity production) and failed to achieve gains in nontraditional sectors. In addition, African economies failed to diversify away from primary commodities as external terms of trade declined for the continent's traditional exports. One result of this bleak record has been a virtually complete marginalization of Africa from the world trade scene.

With the mid-1990s, however, guarded optimism has returned. Many countries have adopted complex structural adjustment programs whose objectives call for restoration of macroeconomic and sectoral equilibrium. Thanks to changes in fiscal and monetary policy, exchange rate regimes, and pricing and trade policy in individual sectors of some African nations' economies, externally oriented private sectors are emerging in several Sub-Saharan African (SSA) countries. These countries are ready to take advantage of new trade and investment opportunities.

What are these "new trade and investment opportunities"? How can they be identified and evaluated? What types of trade and investment promotion mechanisms have other countries and trade blocs instituted? What has been their record of success to date? What is the expected effect of recently negotiated international trade agreements on Africa's opportunities for expanded trade? What future topics for research ought to be considered? This paper defines these opportunities in three ways:

- ***New products.*** As marketing researchers increasingly "nuance" their consumer targets, they constantly identify new products in both goods and services that satisfy the demands of niche markets. The biggest surge in international trade today comes from non-traditional exports. In agriculture, non-traditional exports translate into a wide range of fresh and processed specialty products, while within manufacturing, office and telecommunications equipment represents the most dynamic trade category.

- ***New markets.*** Sub-Saharan Africa has traditionally exported to Western Europe and, to a lesser extent, North America. Today, other markets beckon, both far and near. African exporters are developing commercial links to markets around the world. At the same time, African exporters are encouraged to seek new commercial links in domestic markets, neighboring countries, and within the Sub-Saharan region.

- ***New modes of trade.*** Trade does not come about simply because an enterprise in one country sells a product which is purchased by an enterprise in another country. Today, trade is increasingly nurtured through subsidiary, partner, strategic alliance, and other off-shore contracting relationships between sellers and buyers around the world. Trade is a function of modes of contracting for primary and processed materials, technology sharing, marketing, and products and services delivery. It is being shaped by firms competing on the basis not just of traditional comparative advantage (i.e., lowest factor cost), but also by other dimensions of competitiveness such as product quality in the broadest sense of the word.

Challenges for the Private Sector

The private sector is much more aptly suited to responding to the new trade challenges facing SSA than the public sector (Keesing and Singer, 1991a). Public servants adapt poorly to the tasks of promoting business and commercial enterprises and their fundamental focus is on administration, not on commercial success. The low status of most trade and industry ministries makes it difficult to recruit the best staff and rigid bureaucratic procedures in the public sector cause it to be less inclined to timely actions in response to private sector needs. Because public sector officials need to show immediate results, they tend to focus on trade fair participation, sales missions, and similar activities. Unfortunately, this means the public sector ignores vital issues such as market research and the adaptation of firms' production to international market needs.

In contrast, economists and business managers working in the private sector are trained in a range of market analysis techniques that evaluate financial and economic profitability, internal rates of return, and net present values of alternative projects, ventures, and investments. These techniques include:

descriptive analysis	to identify the relevant stages in production and marketing
supply analysis	to assess issues relating to domestic production and competing imports
market analysis	to identify buyers and sellers of raw material, inputs, and final goods, and the networks that link them
demand analysis	to assess issues relating to consumption
institutional analysis	to identify the jurisdictions and policies of public sector agencies which may have an effect on the activity
cost and revenue analyses	to assess unit margins under alternative price and cost scenarios, expected revenue streams under alternative volume scenarios, and net cash flow under alternative investment and business development scenarios
constraints analysis	to identify bottlenecks along the chain and strategies for remedying them

The Competitiveness School

In response to the general perception that the United States had lost its edge in the international marketplace in the mid-1980s, a large intellectual effort was launched to ascertain the pathology of the phenomenon. The Competitiveness School argues that the globalization of firms and factor markets (labor and, increasingly, capital) has decoupled the firm from the factor endowment of a single nation. Low wage rates no longer determine trade flows as sophisticated modes of production and marketing sustain market share for increasingly differentiated products and services (Porter, 1990). In fact, the direct labor content of most products is decreasing rapidly as automated technologies are used in production, and an increasing share of cost derives from research and development, design, marketing, and distribution (Dahlman, 1991). In the words of competitiveness analysts, comparative advantage "has to be *created* [italics added] and must [continuously] respond to the changing world environment" (ul Haque, 1991).

Many competitiveness analysts focus on several layers of competitiveness determinants as follows:

- macroeconomic and incentives/regulatory policies provide the base for domestic industries to pursue competitiveness;

- infrastructure (physical, institutional, socio-political, human) enables organizations to develop and exploit technology; and

- firm management is ultimately responsible for pursuing dynamic strategies to achieve competitiveness by improving labor productivity; creative product/service development; quality of product and associated services; technology research, development, and commercialization; worker motivation/flexibility; internal organization; and relationships with suppliers and customers.

Resource-based industries are in decline, and the man-made brainpower industries which are now in ascendance can be located anywhere. They require entrepreneurial vision and organizational skills. Thurow notes that it is process, not product, that is the key to comparative advantage. "To be masters of process technologies, a successful business must be managed so that there is a seamless web among invention, design, manufacturing, sales, logistics, and services that competitors cannot match (Thurow, 1996: 69)."

Cost, the classic measure of comparative advantage, no longer weighs as predominant in a firm's ability to compete. Porter (1990) observes that many companies in high-wage countries compete successfully on the basis of product design, sales, and service to clients. If a product's distinguishing characteristic is cost, its manufacture can and will be moved nimbly around the world in search of the lowest cost base of manufacture.

An evaluation of "best practices in trade policy reform" consistently cites the provision of a stable macroeconomic environment as the basic requirement for successful development of exports (Thomas, Nash, et al., 1991; Olson, 1996). Such an environment must include:

- facile access to both foreign exchange and short- and long-term capital;

- political stability and a legal system that protects private firms from expropriation or excessive government interference;

- an efficient system for importing inputs in a timely fashion without trade or indirect tax burdens, quantitative restrictions; and

- well-functioning telecommunications, power, ports, transport, and industrial estates infrastructures.

The ability to attract foreign direct investment is also essential. To that end, domestic business regulations should also be reviewed to ensure a minimum of red tape with regard to business registration, labor relations, industrial siting, and regional development.

Support services — high-quality accounting, management, production engineering, design, packaging, processing, quality control, warehousing and storage, transport, publications, market research and analysis, advertising, and sales and marketing services — are all critical to export success.

While the government's role in macroeconomic and incentives/regulatory policy is clear, much of the debate regarding new trade opportunities has focused on the appropriate degree of government involvement in infrastructure and firm management. The discussion below addresses these latter determinants.

Promoting Trade and Investment

The global economy is increasingly evolving into an integrated market place. As countries have undergone structural adjustment, they have shifted from an emphasis on import-substitution and directed markets to increasing exports and liberalizing markets. Sub-Saharan Africa, however, has not experienced the same success as other developing regions in the realization of new trade opportunities. In SSA, anti-export biases have resulted from several decades of high tariff protection, pervasive quantitative restrictions, export taxes, the domination of commodity marketing boards, and currency overvaluation. Nonetheless, many SSA nations have managed to overcome several of these policy constraints, yet the institutional environment within which trade takes place is still far from ideal. This section explores some of the institutional reforms that have been introduced, both outside SSA and, to a more limited extent, within the region in order to promote trade and investment and thus the realization of new opportunities.

Where nations have successfully implemented "pro-trade" policy reforms to stabilize the macroeconomy and to reform exchange rate, trade, and marketing policies, economic growth and expansion of trade are expected to accelerate without specific export promotion actions.[1] In many instances, however, reforms have been either partial or ineffective. In response, governments around the world, particularly outside Sub-Saharan Africa, have introduced a variety of institutional mechanisms or interventions to enhance exports. These include:

- **infrastructure, production, or export processing zones** (sea/airport development; storage, cold storage, and sorting/packaging facility development; and free trade or export processing zones), which are often seen as a way of efficiently providing improved infrastructure to a concentration of export activities;

- **trade tariff schemes to exempt exporters** from tariffs on imported inputs (duty drawbacks, waivers, exemptions, and rebates; temporary admission; and bonded manufacturing warehouses) regardless of exporters' physical site;

- **foreign direct investment promotion** (tax rebates or holidays, agreements to avoid double taxation, exemption from trade duties, preferential interest rates, unrestricted investment licensing, favorable tax codes, liberal capital repatriation schemes, liberalization of equity capital ownership guidelines, and preferential treatment for location in strategic regions); and

- **export promotion schemes** (streamlined export procedures, export market development projects, export promotion boards, trade fairs, exporter training programs, market information systems, establishment of international market information centers, improvement of domestic quality/standards/packaging/labeling practices to match international market requirements, and preferential financing arrangements such as export incentive schemes, export credit guarantees, directed credits, availability of export financing at preferential interest rates, export foundations to support export technology, and market research and development).

- More indirectly, **entrepreneurship or private sector development projects** often include export promotion among their strategic objectives; labor market reforms may facilitate private sector development by permitting greater flexibility for movements by firms in and out of the labor market; and domestic market reforms (removal of parastatal marketing boards, domestic pricing controls) may be an important precondition to the expansion of primary sector exports.

The advantages and disadvantages of the most significant of these interventions are discussed below.

Export Promotion Zones

In countries where streamlined procedures for intermediate input and raw material imports are unavailable and physical infrastructure is underdeveloped, the creation of export-oriented industrial parks may provide a next-best solution. Export processing zones (EPZs), also referred to as export promotion zones or free trade zones (FTZs), involve physically separate facilities with their own customs office to facilitate access to duty-free trade and rapid customs clearance.

FTZs are often implemented in the early stage of a country's development to promote export and foreign investment, as has been the case in Malaysia (known as the most successful FTZ regime for export and investment promotion), Indonesia, Mauritius, Sri Lanka, and the Dominican Republic. Korea, China, and Taiwan are the best examples of countries that established FTZs for the purpose of providing a relief against anti-export biases to export activities that already existed. In addition, FTZs in Costa Rica, the Dominican Republic, and Honduras have successfully promoted investments and expanded manufactured exports (McKean and Fox, 1994; Louis Berger, 1990).

Established in at least 30 developing countries, FTZs are an integrated (and legal under GATT – the General Agreement on Tariffs and Trade) option for providing "equal footing" export policies (Rhee, Katterbach, and White 1990) to developing country exporters, disadvantaged by anti-export biases. In the mid-1980s, 95 percent of FTZ employment worldwide (mostly unskilled or semi-skilled jobs) was concentrated in the following 12 countries: Mexico, with close to 20 percent, Korea, Malaysia, Taiwan, Brazil, Macau, Mauritius, Tunisia, Philippines, the Dominican Republic, Sri Lanka, and Egypt. An additional 33 countries (including Ghana and Senegal) represented the remaining five percent of global EPZ employment (Rhee and Belot, 1990).

Hill (1994) observes that many FTZ investors in Southeast Asia are in fact textile exporters from East Asia, for whom the Multifibre Arrangement (MFA) quotas on textile and clothing trade have already proven binding. In search of countries with underexploited quotas, these exporters have moved aggressively into Bangladesh, Sri Lanka, the Philippines, Indonesia, and Mauritius to establish new export platforms. Whether the continuation of such a phenomenon will bring textile and clothing-related foreign direct investment into SSA countries is explored later in this paper and is a current research topic for several EAGER/Trade field activities in Tanzania, South Africa, and Madagascar.

In general, many FTZs have proven to be poor investments (Thomas and Nash 1991; Hill 1994) largely because of some combination of unfavorable location, high investment costs, mediocre management, and/or uncooperative customs officials. They also tend to remain isolated from economic activity in their respective countries, thus preventing the very demonstration and spillover effects it is hoped will result as a country enters an export expansion phase.

One alternative to the physical siting of an EPZ, as pursued by Mauritius and Madagascar, is the application of a streamlined duty exemption scheme to any approved export enterprise regardless of its location. Referred to in Thomas and Nash (1991) as an FTZ, this scheme is just another version of a bonded warehouse scheme; it provides FTZ-like benefits to firms physically located outside an FTZ. In fact, only about one-third of Mauritian FTZ enterprises are actually located in public or private industrial sites. In Madagascar, the "virtual FTZ" concept has proven more popular than the physically sited FTZ. The latter is located on the coast, yet most firms prefer to locate in and around the inland capital city where labor and infrastructure are more developed. Other African countries, including Senegal, Liberia, Kenya, Togo, and Cameroon, have tried but failed to follow the Mauritian example.

Duty and Indirect Tax Exemption, Drawback, and Rebate Schemes

Duty exemption and drawback schemes enable local exporters to enjoy access to imported inputs on an equal footing with foreign competitors at world prices. A simple duty and indirect tax exemption scheme allows exporters to pay partial or zero duties and indirect taxes on their input imports. Rebate or drawback systems provide exporters with ex-post refunds for the duties and indirect taxes they pay on their imported inputs. Asian countries have effected these refunds in one of two ways: either on a case-by-case basis, calculated on actual duties and indirect taxes paid, or on a fixed coefficient basis, according to a preset schedule derived from pretabulated technical input-output coefficients (Harrold et al, 1996).

Duty exemption, drawback, and rebate schemes may present several disadvantages. They can discourage domestic production of inputs supplied at higher prices and thus contribute to contraction of the local industrial sector, thereby leading to even greater dependence on foreign suppliers. Unless import procedures for the specified inputs are efficient, the result may be reduced production of export goods.

For these schemes to be most successful, the export sector needs to generate backward linkages in the economy. This requires not only that direct exporters receive duty and indirect tax exemptions or rebates, but also that domestic suppliers of exporting firms receive the same incentives.

Local producers in some Asian countries have been able to provide inputs to exporters at world prices using backward linkages.

- In Korea, indirect exporters, including producers of commodities used as inputs in the production of export goods and suppliers of export goods to direct exporters, received the same incentives as direct exporters. Domestic commercial banks furnished letters of credit that provided the basis for the processing of rebate claims.

- In China and Taiwan, dependence on relatively unsophisticated banking systems meant less frequent reliance on letters of credit. Trade partners were the most important source of export credit which was extended through the use of post-dated checks. As a result, indirect exporters had to produce customs documents to verify duty and indirect tax expenditures for imported inputs, thus leading to a protracted duty reimbursement procedure.

Outside Asia, rebate systems based on actual exporters' declarations are found in Morocco, Senegal, Malawi, Tanzania, Uganda, Zambia, and Nigeria. While verification by customs officials is supposed to take place within six months, the delays in receipt of duty rebates are a common complaint. Rebate schemes need to ensure both that sufficient quantities of inputs can be imported to satisfy exporter demand and that the imports will not be re-sold at higher prices on the domestic market (Thomas and Nash, 1991).

The bonded warehouse scheme is yet another alternative to facilitating access to imported inputs by firms specializing in exports. It involves importing inputs and shipping products out under customs seal. Modern, streamlined in-bond schemes involve only minimal bonding and customs expenses for enterprises (Thomas and Nash, 1991). In contrast, antiquated procedures that are still widely used require the physical presence of customs officers in warehouses and expensive bonds for every shipment.

Kenya's Export Compensation Scheme compensates exporters for government taxes on inputs after export. It includes a Manufacturing under Bond program in which imported inputs and exports are transacted duty free as well as other import duty and VAT remission schemes that encourage exports. Kenya's scheme did not succeed, largely due the government's inadequate support to its export promotion policies. The anti-export bias was too great, the overall policy preference called for protecting domestic import-substituting production, and the negative revenue effect was too high (Hill 1994).

Promoting Foreign Direct Investment

Export pessimism and rejection of foreign capital characterized the stance of many developing countries in the 1960s and 1970s. Today, access to capital is recognized as essential to economic development. To overcome domestic capital constraints, countries are increasingly turning to international markets for financing.

While international portfolio capital transactions are recognized for their volatility given the experience of the Mexican peso crisis of December 1994 and the Asian financial crises of 1997–1998, foreign direct investment (FDI) is considered somewhat less volatile. In the global market, private capital flows now far outpace public capital flows, though not in SSA, where public capital flows still outweigh private transfers by over four to one for the period 1991–1994 (Jasperson and others 1995).

Average annual FDI in developing countries has more than doubled in the period 1990–1994 compared to the 1980s, excluding 1994 FDI flows to China (IFC 1995; World Bank 1996). The largest share of FDI has gone to just a few countries. Over the period 1993–1995, China and Mexico accounted for almost 50 percent of FDI to developing economies while Malaysia, Argentina, Indonesia, Brazil, and Thailand accounted for another 20 percent.

Of the $90 billion in FDI flows in 1995, just $2 billion went to Sub-Saharan African countries. Nigeria and Angola have been the primary recipients since 1986, with lesser amounts going to Botswana, Zambia, Namibia, Guinea, and Ghana. In 1994, South Africa achieved net positive investment inflows for the first time since 1989. Speculation on the South African Rand in the first half of 1996, however, may have caused a setback to this gain in the short term.

A large part of the FDI directed to SSA to date has been concentrated in natural resource extraction industries rather than in manufacturing. The limited amount of FDI directed at the manufacturing sector in SSA has focused on production for local consumption (agribusinesses such as breweries and dairies, for example, or consumer products such as shoes). In many instances, however, the local market in Africa is of a much more modest dimension than in Asia owing to much smaller populations (except for Nigeria) and lower per capita income.

Asian experiences with FDI offer valuable lessons for African countries. "Some of the hopes with respect to foreign investment are probably too high; that the new legislation in Africa favoring foreign investment must be accompanied by more complex macroeconomic reforms to generate significant inflows of FDI; and that some of the successes of Asia cannot be repeated because of changes in the structures of the world industries involved" (Wells, 1994: 337).

Wells and Wint (1990) categorize three types of promotional efforts that can help attract foreign investment to local economies.

- In the early stages of its outward orientation, a country needs to represent itself as promoting an optimal investment climate for international capital.

- After a favorable investment climate has been established, a country needs to engage in promotional efforts that tout its strengths and publicize attractive incentive packages targeted carefully to identified firms, thereby wooing them, their capital, and their job opportunities.

- Once a country manages to induce firms to invest within its borders, it needs to provide investors with necessary services. SSA countries, however, are still challenged by the first task of enhancing their image as offering a favorable investment climate.

While FDI used to mean American or European capital or, for East and Southeast Asia, Japanese capital, the sources of FDI are diversifying. Now FDI originates from all corners of the globe, including the newly industrializing countries (NICs) of Asia, the Middle East, and Latin America.
South African investors are exploring opportunities throughout SSA, particularly in the minerals and consumer products sectors. It may be that investors from other developing countries have a different risk-tolerance profile than industrial country investors, making them more attractive FDI candidates for SSA. Investors from the NICs may also have a better sense of how to get around many of SSA's institutional constraints. These possibilities may help to explain the recent government of Ghana trade and investment mission to Southeast Asia led by the normally reclusive President Jerry Rawlings.

Export and Investment Promotion Support Services

McKean and Fox (1994) provide a synthesis of USAID experiences with export and investment promotion support services in Asia and Latin America. Their review indicates that such services have resulted in a high payoff in some countries. While detailed cost-benefit analysis of export and investment support service projects is not feasible, foreign exchange earnings, employment creation, and return to local capital may be direct benefits. Indirect benefits, including new or stronger institutions to promote investment and exports, an improved policy environment, and externalities, could also be significant (Bremer and Bell, 1993).

According to a joint World Bank-USAID study of competitiveness in Sub-Saharan Africa in 1991, African exporters place the highest value on government interventions: promotion of foreign/domestic collaboration, export policy instruments, and investments in physical trade infrastructure. Exporters interviewed for the study voiced great frustration over their unmet demand for foreign collaboration. SSA's private sector would prefer to receive technical, marketing, and/or management experts under the auspices of commercial agreements. Foreign suppliers of such collaboration are not forthcoming, partly due to Africa's negative image overseas. Foreign governments and donor agencies prefer to deploy consultants to promote exports. The study recommended the consideration of private match-making mechanisms and export-oriented foreign and domestic enterprise collaboration risk-coverage schemes as a means of bridging the gap between SSA and foreign small- and medium-sized enterprises.

Most countries do not succeed in their export promotion efforts until they provide their economic agents with a stable macroeconomic environment. Structural factors and the enabling environment can determine export success or failure. Part of SSA's lack of export success to date is also attributable to a lack of an entrepreneurship tradition in the region. Thus conclusions based on the experiences of Mauritius, Côte d'Ivoire, and Tanzania are premature (Lyakurwa, 1991).

In Botswana, the economy’s extreme outward orientation has prevented the emergence of anti-export policy biases (Hill, 1994). Botswana is an active member of the Southern African Customs Union which promotes free trade among member countries. As a result, manufacturing growth has been significant. While the economy is strongly dependent on traditional exports of meat, diamonds, and copper, nontraditional exports have maintained a small but steady share of total exports.

Entrepreneurship or Private Sector Development Projects

In recent years, some donor aid has been directed to support private sector associations to improve business skills, promote networks among businessmen and women both domestically and within a multicountry region, and provide access to outside advice regarding production, marketing, and international trade issues. These advisory services should be procured from private sector sources if they are to benefit export industries (Keesing and Singer, 1991a).

With a view to finance activities in support of the nascent private sectors in developing countries, international aid officials have had to develop creative ways to circumvent the restrictions placed on traditional funding eligibility.[2] In some countries, assistance has taken the form of funding a private sector foundation that distributes funds to private individuals or firms on request. Such an institutional arrangement is credited with launching Chilean agribusiness in the 1970s (Barriga, 1990). FIDE, a private export promotion organization in Honduras funded by USAID, is an example of USAID's private sector largesse during the 1980s. The International Trade Centre, under the GATT has also shifted to an enterprise-oriented approach and extends technical production advice, market research and other assistance directly to selected firms in specific industries in client countries. Presumably the World Trade Organization will do the same. Few systematic, cross-country evaluations of the impacts of such grant funds have been undertaken, but Keesing and Singer (1991b) suggest guidelines for the design of a grant fund as part of a donor-funded effort.

Aid has taken the form of direct assistance to private sector associations in West Africa. Since 1993, USAID and other aid donors have given support to the West Africa Enterprise Network (WAEN), an association of national networks of commercial and financial service providers and manufacturers in 11 countries (both Anglophone and Francophone).[3] The WAEN has trained local network members in international market analysis with USAID assistance (AIRD, 1995). It has identified and researched constraints to regional trade integration (Salinger and Barry, 1996). At present, it is pursuing a lobbying program to sensitize local government officials to these constraints and promote regional integration-related policy reforms. Successful exporting nations channel such lobbying efforts through a well-developed structure of private representative associations or chambers that continuously and aggressively promote the business community's viewpoint to the government (Keesing and Singer, 1991a).

In summary, most evaluations of trade and investment promotion activities find such activities to complement rather than substitute for structural adjustment. In other words, trade and investment promotion can succeed only if the political, macroeconomic, and trade policy environment promotes such efforts. By themselves, many institutional mechanisms described above could give rise to fiscal and economic costs, trigger rent seeking behavior, and yield only minimal benefits. There is little evidence to date that promotional programs have increased trade for African countries which are still a minor source of world supply of traded products and services. Additionally, export subsidies could provoke aggressive trade counterpractices by importing countries.

A far more effective way to promote trade and investment in Sub-Saharan Africa, most observers agree, would be through the pursuit of a twin strategy: continuing the process of adjustment already initiated by many countries, while demonstrating commitment to adjustment programs through trade and investment promotion efforts.

INTERNATIONAL TRADE AGREEMENTS

The global trading regime has changed dramatically over the last decade. Regional trade agreements have proliferated throughout the world as trading partners have banded together to exploit existing economic and political commonalities with the objective of improving economic welfare. International trade agreements, both global and regional, are the major multilateral vehicle by which the world's economies seek to create or expand trade opportunities in new products, markets, and modes of trade.

Sub-Saharan Africa is party to a number of important international trade agreements. The Lomé Convention and the Generalized System of Preferences (GSP) are two non-reciprocal international arrangements to which SSA countries have been parties since the 1970s. In each case, the non-reciprocal nature of these two accords signifies that SSA countries are not required to extend to their trading partners the same benefits offered to them as beneficiaries. Whereas Lomé is a convention with one set standard of internationally recognized rules and disciplines, the GSP programs recognize each country’s uniqueness, in turn offering specific trade preferences to each country.

The Uruguay Round

The Uruguay Round (UR) of the GATT, the most significant modification to the multilateral trading system undertaken since its initiation in 1948, was completed and formalized in April 1994. Most SSA countries have become parties to the Uruguay Round agreements, thus signifying their desire to take a more active role in the global trading system and its institutions. While it is true that a number of SSA countries have been members of the GATT since its inception, the UR represents the first time developing countries have maximized the opportunity to participate actively in shaping the new system in an integrated fashion. Even so, the results of SSA countries' participation in the UR agreements has been mixed, often varying by level of commitment to trade liberalization and degree of success with unilateral economic reforms.

Growing general consensus suggests that the impact of the UR on SSA will be relatively modest from an overall welfare perspective as well as from a more narrow trade perspective (Sorsa 1995; Goldin, Knudsen, and van der Mensbrugghe 1993; Goldin and van der Mensbrugghe 1995; Harrold 1995; François, McDonald, and Nordstrom 1995; Yeats 1994). Some studies conclude that SSA will gain more in the immediate term from the continued pursuit of structural adjustment reforms. One study argues that changing patterns of comparative advantage resulting from shifts in relative land and labor costs between Asia and Africa will produce an increase in agricultural export opportunities for Africa once trade quotas and preferences are eliminated (Hertel, Masters and Elbehri, 1998). In any event, there is consensus that for any country to maximize gains from the UR, the domestic economic environment must be reasonably open.

The argument has been made that SSA countries lost the opportunity to benefit from the UR by failing to lock their own domestic reforms to an international anchor. In part, the UR agreements made many of the trade liberalizing measures more applicable to the industrialized countries than the non-industrialized nations. Most of the region's governments decided not to make substantial liberalization commitments on border protection. The member nations of the South African Customs Union (SACU), including Botswana, Namibia, South Africa, Swaziland, and Lesotho used the UR to consolidate ongoing domestic reform programs. In terms of their own commitments, most SSA countries, like many other developing countries, elected to bind their tariffs at prohibitive levels, ranging upwards of 100 to 300 percent, rather than at the more modest rates actually applied.[4]

Several explanations can be advanced to explain why SSA countries as a whole did not undertake meaningful commitments in the UR:

- Trade liberalization results in greater competition in local markets as foreign goods compete with what are often relatively underdeveloped and uncompetitive domestic industries.

- Many SSA countries, similar to other UR negotiating parties, were looking to maintain policy flexibility by setting their bound rates at high levels. Despite applied rates that are often significantly lower than bound rates, a high tariff ceiling gives each government room to maneuver in case unanticipated events have negative trade flow impacts.

- Many SSA countries rely on tariffs and other taxes on trade as an integral component of government revenues. The reduction of border protection would have an immediate and direct effect on government accounts.

- Most of the pre-UR border measures prevalent throughout SSA (including export taxes and import subsidies) were not reformed under the UR trade agreements.

New Trade Product Opportunities

One potential strategy for SSA exporters considering new trade product opportunities is to bias their exports towards those products that experienced large reductions in protection as a result of the UR. Given that most SSA agricultural exports already face relatively few tariff barriers, these product opportunities are likely to be found in the manufacturing sector.

Several SSA countries should benefit from the reduction of other barriers, such as the internal support mechanisms prevalent in the European Union (EU) Common Agricultural Policy (CAP), and the resulting upward pressure on world market prices. Mauritius and Swaziland in their sugar industries, and Botswana and Zimbabwe in their beef and veal industries are expected to gain from EU agricultural reforms (Harrold 1995). SSA already enjoys a comparative advantage in these products and it is well placed to reap the benefits of reduced protection in the Organization for Economic Cooperation and Development (OECD) countries. Continued liberalization of trade in manufactures is also extremely important for SSA's new trade opportunity prospects.

Tariff escalation perpetuates the role of developing countries as raw material exporters and maintains higher value-added processing activities in the industrial countries (Harrold, 1995). Controlling tariff escalation, whereby rates of import protection increase as the value-added to a product increases, will stimulate the creation of new export opportunities for SSA. The UR is expected to reduce tariff escalation, given that tariffs on raw materials are already close to zero, and create the incentive among existing raw material exporters to move along the processing chain toward those activities that require greater value added-processing activities and for which the terms of trade may be more stable.

The elimination of non-tariff barriers, such as voluntary export restraints, import surveillance, and other so-called gray area measures, will also increase export opportunities for SSA producers by improving market access to industrial country markets. In 1992, it was estimated that 10.8 percent of OECD country imports from SSA (excluding fuel) faced non-tariff barriers. The post-UR non-tariff barrier coverage is expected to fall to 3.3 percent (Amjadi and Yeats, 1995). Among product categories, SSA food exports are most seriously affected, with 23 percent facing non-tariff trade barriers. In particular, fish and fish products, as well as footwear, iron and steel, consumer electronics, textiles and clothing, and agriculture, are the categories highly susceptible to restrictions.

The Textile Trade

The elimination of the Multifibre Agreement (MFA) has been heralded as one of the chief accomplishments of the UR (Amjadi and Yeats 1995; Hamilton 1990; Smeets 1995; Yang 1994). The Agreement on Textiles and Clothing (the Agreement) establishes clear and transparent new disciplines for textile trade over a ten-year transition period, at the end of which tariffs, rather than bilateral product-specific quotas, will be the main instrument of border protection. The Agreement will help restore the price mechanism as the principal determinant in consumption and production decisions, thereby permitting trade and investment patterns to more accurately reflect the comparative advantage of producers and contribute to greater economic efficiency (Smeets, 1995).

The Agreement is expected to create new export opportunities for developing countries by eliminating quantitative restrictions. It will put an end to the MFA's restraints on developing-country textile and clothing exports. In fact, most studies found a substantial decline in export opportunities associated with the MFA restrictions. The United Nations Conference on Trade and Development (UNCTAD) (1986) estimated that complete, non-discriminatory liberalization of the textile and clothing sectors could increase developing-country exports by 78 percent and 135 percent respectively. Industrial-country demand was suppressed by the imposition of import quotas under the MFA. As a result of the UR, global demand is expected to increase and prices to rise for previously restricted and unrestricted products (Yang, 1994). It should be noted, however, that restrictions on 49 percent of the reference import volumes will not be eliminated until the last day of the transition period in 2005. The implication is that trade gains will be spread out over the transition period, with most benefits accruing in the medium term.

The impact of the MFA's elimination on SSA producers will vary. Mauritius, Kenya, and Lesotho have been the only SSA countries with MFA quotas. Therefore, these countries' textile and apparel exports should increase under the Agreement as their market shares become less restricted. The impact on SSA producers not operating under MFA constraints is likely to be more mixed, however. Amjadi and Yeats (1995) suggest that the MFA favored African exporters by shielding them from direct competition with competitive countries that were subject to restrictions. International Textile Consulting (ITC) (1996) appears to confirm Yeats' finding with data showing that U.S. textile and apparel imports from SSA grew by 118 percent over the 1990–1994 period, with more than 50 percent of 1994 imports originating in non-MFA countries. In fact, Amjadi and Yeats suggest that at the end of the Agreement's transition period, textile and apparel trade will become subject to *aggressive international competition* [authors' emphasis]. Further, the reduction of preferences in the EU for SSA textile and apparel imports will stimulate greater competition with Asian producers (under the Lomé Convention, SSA textile and apparel producers have not faced MFA restrictions in EU markets). In addition, foreign investment in SSA countries in the textile and apparel industry, which in the past may have been motivated by quota-shopping producers, may be reduced with the elimination of the MFA. Yet given the Agreement's relatively long transition period, SSA producers could be expected to improve their competitiveness enough to compete effectively with existing suppliers and attract foreign investment on their own merit. In fact, ITC (1996) suggests that several SSA countries, including South Africa, Mauritius, and Madagascar, are increasingly becoming strong competitors.

Developing New Markets

The overwhelming majority of SSA exports go to OECD markets, with developing countries representing a small proportion of SSA's export markets. It is unlikely that SSA's trade patterns with the remainder of the developing world will change as a result of the UR.

One of the major forces that might encourage SSA exporters to locate new markets is the erosion of trade preferences which is expected to occur as the industrialized countries lower their most favored nation tariff rates. Europe still absorbs more than half of SSA's exports and offers the greatest tariff preferences, so SSA producers have the most to lose in the EU as a result of eroding trade preferences. Average tariffs for the least developed SSA countries have been 0.23 percent in the EU compared with 3.29 percent for the United States and 1.94 percent for Japan. European preferences, offered primarily via the Lomé Agreement, have been more than three times as large as those granted from other major trading powers. The erosion of preferences translates into a potential decline in SSA export volumes of up to 1.9 percent in the EU as a result of the UR (Yeats, 1994).

The expected, and perhaps preferred, outcome is that the reduction of preferences will encourage SSA producers to seek out alternative export markets within both the industrialized and the developing worlds. Africa's eventual status as winner or loser may depend on its ability to react to new market opportunities and to diversify away from Europe (Harrold, 1995). The erosion of preferences may encourage the growth of trade within the SSA region itself and between SSA and the United States and Japan (ITC, 1996).

New Modes of Trade

New modes of trade are responsible for the tremendous boom in international trade volumes. It remains a foregone conclusion that if Sub-Saharan African countries want to participate actively in the global trading system, they must make themselves attractive to firms and other investors searching for new trade opportunities.

One of the achievements of the UR was the completion of the Agreement on Trade-Related Investment Measures (TRIMs) which aimed to limit the use of discriminatory Foreign Direct Investment (FDI) practices. The TRIMs Agreement applies only to investment measures directly related to trade in goods, thereby excluding investment incentives and other performance requirements, including technology transfer and licensing. The former include tools such as local content rules, foreign exchange or trade balancing requirements, or domestic sales requirements which many SSA countries use in their dealings with foreign investors. Such measures are to be prohibited when they are found to distort trade, affect importation or exportation, and/or discriminate against imports relative to domestic production (Morrissey and Rai 1995).

How does the TRIMs Agreement affect SSA's ability to attract FDI with the ultimate goal being the creation of new trade opportunities? On one hand, it may be viewed as a positive obligation that does not require considerable compliance effort. Sorsa (1995) indicates that the TRIMs Agreement mainly enforces existing GATT disciplines while the long transition period for developing countries and the possibility of extension imposes few immediate obligations on SSA countries. Moreover, Sorsa argues for fuller SSA participation in the TRIMs Agreement because the elimination of many of the indicated policy measures would result in efficiency gains. Finally, SSA countries' compliance with the TRIMs Agreement provides an indication to foreign investors of a more stable and predictable investment environment.

On the other hand, Morrissey and Rai argue that the prohibition against the use of TRIMs effectively limits the policy options available to developing countries in their dealings with multinational corporations (MNCs). The authors argue that some developing countries resort to TRIMSs as a response to the restrictive business practices of MNCs, and not necessarily as a means to generate greater domestic resource gains. Finally, Morrissey and Rai contend that developing countries need to retain the ability to use TRIMs as bargaining tools in their negotiations with foreign investors.

Another UR agreement that could have an impact on SSA's ability to attract foreign investment is the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement. The TRIPs Agreement provides for most favored nation (MFN) treatment of intellectual property rights, minimum standards of protection, and the need for appropriate enforcement in the following areas: copyrights, trademarks, industrial designs, patents, and trade secrets. Harrold (1995) suggests that the expected benefits of the TRIPs Agreement, due to increased protection of intellectual property rights, include higher returns on innovation, increased foreign investment, and greater technology transfer. At the same time, he acknowledges that the potential gains for SSA countries are indeed small, at least in the short run. Sorsa (1995) expects the long run benefits to SSA will be increased levels of technology transfer and investment, and higher returns to local research, especially in the more advanced countries.

SURVEY CONCLUSIONS

This paper has explored the trends in global trade and trade practices relevant to Sub-Saharan Africa. What emerges from this examination is the image of a "trade experience learning curve" where the countries of Sub-Saharan Africa still have much to learn. World trade is no longer commodity focused, yet in Africa there is still talk of how to regain global market share in commodities in which Africa has a comparative advantage. In most cases trade is not initiated by suppliers with a surplus to sell, but rather it is spurred by purchasers with a need to procure low cost, reliable goods. It is increasingly arranged across borders within the firm, or among subsidiary, joint venture, or partner firms across countries.

Without investment, trade is almost unthinkable, especially when investment is interpreted in its broadest sense to include the development of commercial and human resource linkages across borders. Trade and investment opportunities for Africa will increasingly come from middle-income, newly industrializing economies and from private business sources rather than from the traditional OECD countries and public aid sources.

Trade policy reform can help set the stage for Sub-Saharan African countries to occupy higher positions on the learning curve of modern trade, but it is not a sufficient condition to spur trade. The political and social environment must be stable if attractive economic conditions are to lead to increased foreign direct investment. A country that offers reasonable conditions on all three planes—political, social, and economic—can target promotional efforts to a small number of potential investor countries and thereby aspire to attract new investment, contract orders, and trade-related employment.

AREAS FOR FUTURE RESEARCH

In order for Sub-Saharan Africa to take advantage of changing trade trends, many issues need to be explored. With regard to reducing the differences in labor productivity between SSA and other developing countries, research needs to focus on the kinds of training and management strategies that can increase firm competitiveness and worker productivity and then determine whether strategies applied in Asia can be adapted with a similar effect on African labor productivity. Incentive structures should be evaluated for their potential to encourage increased capital and/or labor intensity of production.

Attention should also be focused on downstream issues. Researchers need to examine the effect of expanded recourse by SSA countries to new trade opportunities on growth, employment, incomes and their distribution, consumption, nutrition, the environment, and worker health and safety. Countries at different levels of per capita income may have different preference functions regarding social issues such as child labor and the environment. A simple pass-through of standard OECD regulations is probably inappropriate for SSA countries. Researchers also need to consider what types of regulatory structures are needed to guide growth in trade and investment while avoiding the abuses to worker safety, environmental degradation, and others that have accompanied growth in Asia.

With regard to assessing the impact of international and regional trade agreements on SSA, several areas have been relatively understudied. To begin, with but one or two exceptions, there appears to be a dearth of country-specific case studies on the impact of the UR on trade, investment, and growth. The few available analyses have tended to focus on the impact of goods-related trade measures. No model simulates the effects on trade flows of non-goods related measures adopted during the UR. More important, foreign investment flows have remained either an exogenous variable or beyond the scope of the models constructed to evaluate UR scenarios. Research on the relationship between foreign investment (both direct and portfolio) and trade is required. There is also a need to understand the dynamic implications of UR effects on trade patterns and flows, particularly with regard to labor markets. Changing trade opportunities imply changes in labor demand and thus wages, which, in turn, point to changes in patterns of comparative advantage.

SSA countries will have to implement a variety of institutional reforms to ensure compliance with UR disciplines (TRIPs, TRIMs). Research is required to evaluate the potential effect of these reforms to determine whether they will be sufficient, on an institutional basis, to attract investment. Research should also assess the potential costs of the UR agreements and whether they can be expected to generate sufficient returns.

As with any new body of regulation, researchers will have to monitor the emergence of new forms of protection. For example, with regard to textiles and apparel, expected to be important to SSA as a potential new export opportunity, will industrialized producers find alternative means of protection, developing safeguard or social clauses related to environmental or social issues that will act as non-tariff barriers on imports from developing countries?

Little is known about the private sector in SSA and its ability to pursue new global trade opportunities. Who comprises the entrepreneurial sector in Sub-Saharan Africa today? What motivates these businessmen and women to explore commercial relations with foreign countries? What motivates foreign investors to pursue relations in Africa? Are investors from South Africa or Southeast Asia less resistant to the risks of the African investment climate than investors from OECD countries?

Are African entrepreneurs experienced and capitalized at sufficient levels to assure foreign investors that orders can be delivered? Are African entrepreneurs able to undertake the required market analysis? Unlike traders who tend to think short term, can entrepreneurs strategize for the medium and long term in order to target foreign commercial relations for new products, markets, and modes of business?

How effective are existing trade and investment promotion mechanisms in SSA countries whose underlying fundamentals (economic liberalization with political and social stability) may still be lacking? How can better targeted promotion mechanisms be introduced to respond to the real needs of African entrepreneurs and foreign entrepreneurs in Africa? And, finally, what systematic criteria can be developed to answer these questions in a timely fashion in order to provide rapid, informed assessments to policy makers?

ENDNOTES

1. In countries where significant macroeconomic distortions still exist, other compensatory mechanisms have been introduced, though "results are generally disappointing" (Thomas, Nash et al., 1991). Moreover, these mechanisms often become redundant once structural adjustment has been implemented. The mechanisms include foreign exchange access facilitation, including exporter retention of foreign exchange earnings and "own funds" import schemes, as well as relief from high rates of taxation.

2. Normally, only public sector agencies are eligible for Overseas Development Assistance (ODA). One exception is the International Finance Corporation, a subsidiary of the World Bank, which lends at world market interest rates specifically to private firms. In certain countries where penetration of global capital flows is still limited, the IFC remains an important borrowing option for private companies.

3. Donor support covers minimal outside technical assistance to establish networks, organize the coordination of national networks at the regional level, and interact with the external environment. Network members increasingly finance network activities via membership dues. All members pay their own travel and miscellaneous expenses related to meeting participation. By 1997, it is the goal of donors to make the WAEN a self-supporting membership association.

4. Under the 1994 GATT Agreement on Agriculture, all border interventions have been converted into tariff equivalents ("tariffication"). The levels at which these have been set (the "bindings") represent tariff *ceilings*, from which developing countries are to descend by 24 percent over ten years. However, *actual* tariff rates applied to imports may be set at any level below this ceiling. The practice of "dirty tariffication," as this dual tariff structure is known, is not unique to Sub-Saharan African countries. In SSA, the only bindings made below 50 percent were by the Congo (30 percent ceiling), the Central African Republic (46 percent ceiling), and four of the five countries of the South African Customs Union (Botswana, Namibia, South Africa, Swaziland), where bound duties will decline on average to about 40 percent over six years.

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